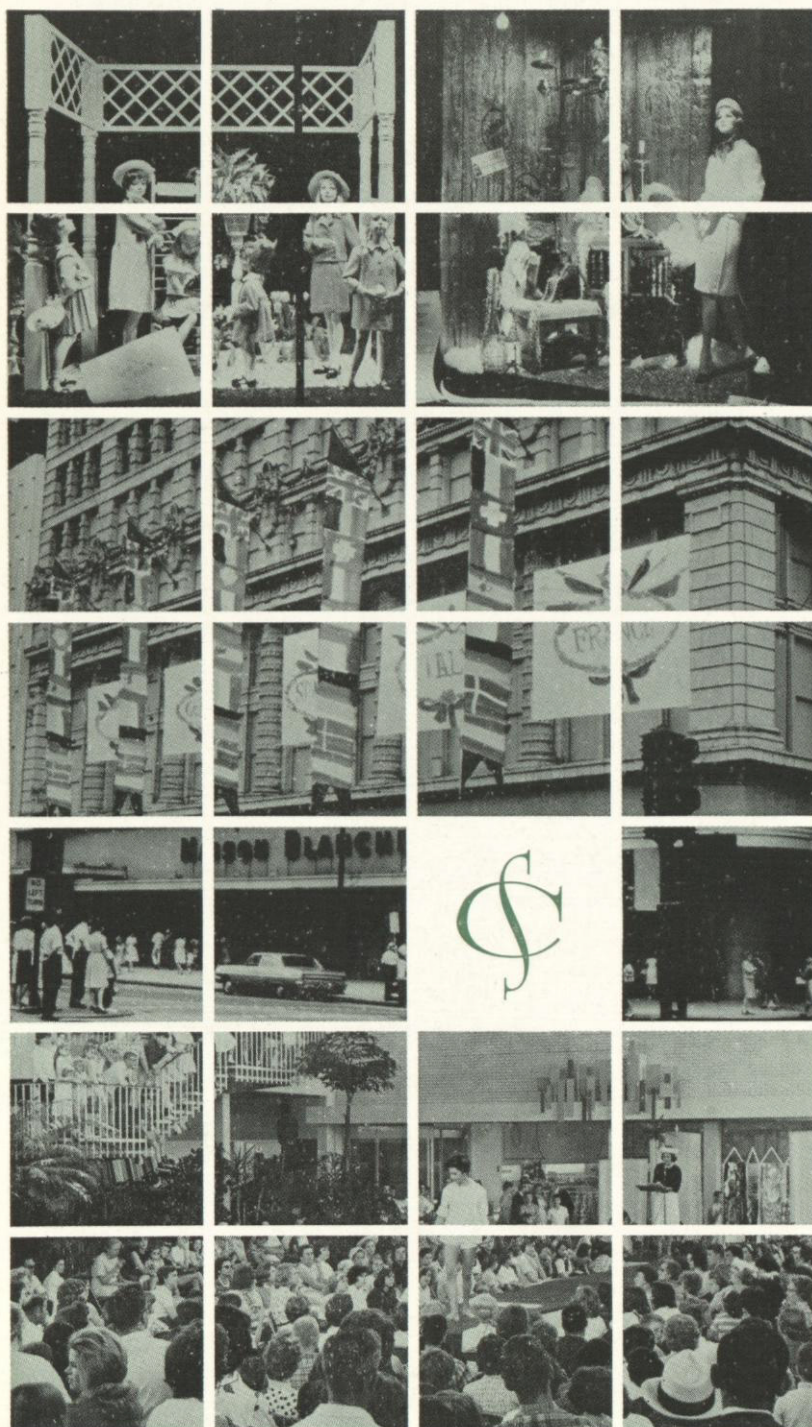


Annual Report • 1965

City Stores Company

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



BOARDS

Department Stores

LIT BROTHERS

Julius P. Hansen, *President*

PENNSYLVANIA:

Philadelphia
69th Street (Upper Darby)
Northeast Philadelphia
Oregon Avenue (South Philadelphia)
Lawrence Park
Morrisville
Willow Grove
Plymouth Meeting**

NEW JERSEY:

Atlantic City
Camden
Trenton

MAISON BLANCHE

Isidore Newman, II, *Chairman of Board*
Eldridge P. Jones, *President*

LOUISIANA:

New Orleans
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods

LOVEMAN, JOSEPH & LOEB

John F. Breyer, *President*

ALABAMA:

Birmingham
Montgomery
Bessemer
Huntsville**

LANSBURGH'S

Louis M. Frankel, *President*

DISTRICT OF COLUMBIA:

Washington

MARYLAND:

Langle Park

VIRGINIA:

Arlington

LOWENSTEIN'S

Stanley H. Fried, *President*

TENNESSEE:

Memphis
East
South

RICHARDS

Paul S. Walker, *President*

FLORIDA:

Miami
163rd Street
Miami Beach
Cutler Ridge
Palm Springs
Fort Lauderdale**

KAUFMAN'S OF KENTUCKY

Richard J. Baker, *President*

KENTUCKY:

Louisville
Dixie Manor
The Mall (Shelbyville)

R. H. WHITE

Harold A. Broomfield, *Executive Head*

MASSACHUSETTS:

Worcester

HEARN'S

Gwilym R. Thomas, *Executive Head*

NEW YORK:

Bronx
Bay Shore

CITYMART

MASSACHUSETTS:

Boston

Specialty Stores

FRANKLIN SIMON

Edwin G. Roberts, *President*

CONNECTICUT:

Milford
Westport

DELAWARE:

Wilmington

DISTRICT OF COLUMBIA:

Washington

GEORGIA:

Atlanta
Lenox Square
Greenbriar*

MARYLAND:

Harundale Center
Mondawmin
Towson Center
Wheaton Plaza
Prince Georges Plaza

MASSACHUSETTS:

Boston

MICHIGAN:

Detroit
Northland Center
Eastland Center
Westland Center*

MISSOURI:

Crestwood

NEW JERSEY:

East Orange
Eatontown
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus

NEW YORK:

New York City
Buffalo — downtown and Thruway Plaza
Cross County
Garden City
Hicksville
Huntington
Manhasset
Roosevelt Field
Valley Stream

NORTH CAROLINA:

Charlotte

OHIO:

Cleveland
Swifton

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove

TENNESSEE:

Memphis

VIRGINIA:

Seven Corners

Junior Department Stores

KLINE'S

Jack C. Smith, *President*

MISSOURI:

Kansas City
Ward Parkway

Home Furnishings Stores

W & J SLOANE

Leonard J. Novogrod, *President*

CALIFORNIA:

San Francisco
Los Altos
Sacramento
Walnut Creek
Redwood City†
San Jose

CONNECTICUT:

Milford
Stamford
Westport†
Hartford*

DISTRICT OF COLUMBIA:

Washington (2)
Spring Valley

NEW JERSEY:

Milburn
Ridgewood
Union†

NEW YORK:

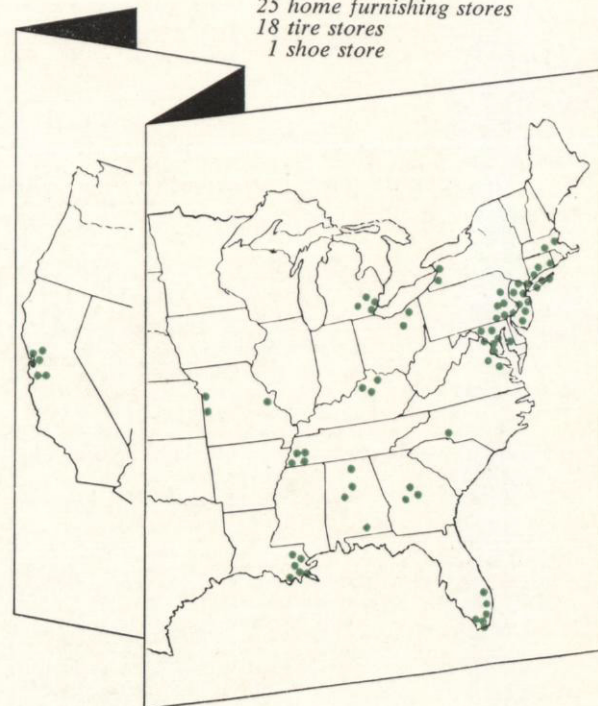
New York City
Forest Hills†
Garden City
Hempstead†
Manhasset
Riverdale†
White Plains
White Plains†

VIRGINIA:

Seven Corners

City Stores Company

operating
40 department stores
2 junior department stores
43 specialty stores
25 home furnishings stores
18 tire stores
1 shoe store



† Clearance Centers

* To be opened in 1965

** To be opened in 1966

Directors

GUSTAVE G. AMSTERDAM
JAMES H. BECKER
MURRY C. BECKER
DAVID BORTIN
RALPH L. GOLDSMITH
ALBERT M. GREENFIELD
BRUCE H. GREENFIELD
JOSEPH A. W. IGLEHART
WILLIAM F. KELLY
LOUIS G. MELCHIOR
ISIDORE NEWMAN, II
LEONARD J. NOVOGROD
THOMAS C. PILLION
MAX ROBB
SERGE SEMENENKO

Annual Report

for the fiscal year ended January 30,

1965

City Stores Company

Corporation Office

132 West 31st Street, New York, N. Y. 10001

New York Buying Office

Mutual Buying Syndicate, Inc.

11 West 42nd Street, New York, N. Y. 10036

Officers

GUSTAVE G. AMSTERDAM, *Chairman of the Board*
ISIDORE NEWMAN, II, *President*
LOUIS G. MELCHIOR, *Vice President and Treasurer*
JULIUS P. HANSEN, *Vice President*
ELDRIDGE P. JONES, *Vice President*
LEONARD J. NOVOGROD, *Vice President*
EDWIN G. ROBERTS, *Vice President*
PAUL S. WALKER, *Vice President*
IRVING J. ZIPIN, *Secretary and General Attorney*
J. KARL FISHBACH, *Corporate Controller and Assistant Treasurer*

Transfer Agent The Chase Manhattan Bank, New York, N. Y.

Co-Transfer Agent The First Pennsylvania Banking & Trust Company, Philadelphia, Pa.

Registrar Chemical Bank New York Trust Company, New York, N. Y.

Counsel Folz, Bard, Kamsler, Goodis & Greenfield, Philadelphia, Pa.

Auditors S. D. Leidesdorf & Co., New York, N. Y.

Annual Meeting Wednesday, May 19, 1965 • 11 A.M. (E.D.S.T.)

Statler Hilton Hotel, 7th Avenue at 32nd Street
New York, New York
Skytop Room

Highlights

	YEAR (52 WEEKS) ENDED	
	January 30, 1965	February 1, 1964
<i>Operations*</i>		
Sales	\$325,045,000	\$313,596,000
Income or <i>loss</i> before federal income taxes	3,493,000	<i>1,694,000</i>
Federal income taxes or <i>credit</i> — deferred	1,400,000	<i>1,020,000</i>
Net income or <i>loss</i>	2,093,000	<i>674,000</i>
Income per share	0.71	—
<i>Financial</i>		
Current assets	88,656,000	86,914,000
Current liabilities	30,805,000	30,508,000
Working capital	57,851,000	56,406,000
Current ratio	2.9	2.8
Accounts receivable	64,535,000	62,968,000
Bank remittances on portion of receivables	<i>29,427,000</i>	<i>28,832,000</i>
Inventories	40,752,000	39,116,000
Property and equipment — net	35,830,000	38,319,000
Long term debt	20,928,000	25,086,000
Ownership		
Common stock equity	59,702,000	57,476,000
Common stock equity per share	20.18	19.43
Number of shares outstanding		
Common stock — at end of year	2,957,863	2,957,863

Italics denote red figures.

* Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves.

City Stores Company

To the Stockholders:

During the past year, your Company has shown significant improvement. Sales for the fiscal year ended January 30, 1965 totaled \$325,045,000, an increase of \$11,449,000, or 3.7%, over sales of \$313,596,000 in the prior year. The past year's sales are the highest in the Company's history.

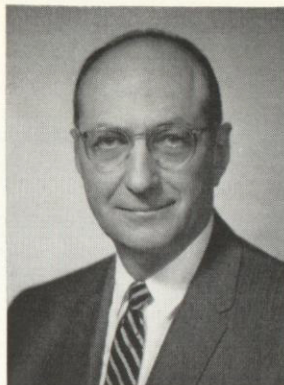
Operating results improved sharply over 1963. Profit before income tax was \$3,493,000 as compared with a loss before tax credit of \$1,694,000 in 1963. After tax provision, profit for 1964 was \$2,093,000 or 71 cents a share. While the Company's statements reflect a federal income tax provision, no cash outlay for taxes is required, due to the availability of loss carry forwards. The \$5,187,000 improvement in pre-tax operating results was derived from greater sales at a higher gross profit while expenses were held at the same level as in the prior year.

The Company's financial position continues strong. Working capital increased \$1,445,000 to \$57,851,000. The year ended with no current bank loans and long term debt and all mortgages were again reduced by \$5,400,000. Aging of accounts receivable and merchandise inventories were substantially improved during the year and both are in excellent condition.

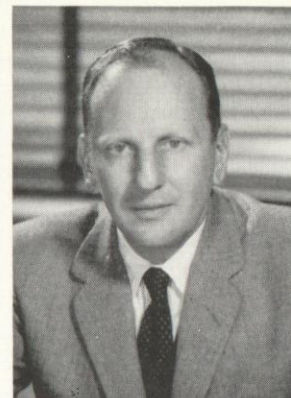
During the year, emphasis was placed on improving our stores in the areas of personnel, merchandising and modernization of facilities.

On November 1, 1964 John F. Breyer, formerly a merchandise manager of Maison Blanche, was appointed President of our Loveman, Joseph & Loeb stores in Birmingham, Montgomery and Bessemer, Alabama. Mr. Breyer, at age 37, brings to Loveman's a record of aggressive, successful merchandising.

On February 1, 1965 Louis M. Frankel, Executive Vice President and General Mer-



GUSTAVE G. AMSTERDAM



ISIDORE NEWMAN, II

chandise Manager of Lansburgh's, Washington, D. C. was elevated to the presidency following the departure of Charles H. Jagels to head the Atlanta Arts Alliance. Mr. Frankel, an experienced and successful merchandiser, has demonstrated the qualities of leadership which assure the progress of this division.

During the year, J. P. Hansen, the new President of Lit Brothers, assembled a new management team which should provide the enthusiasm, experience and aggressiveness needed to dramatically improve the operations of our largest division.

Other divisions of the Company have taken similar steps to strengthen their merchandising and administrative personnel.

Recognition was given to two members of our top management. Leonard J. Novogrod, President of our W & J Sloane stores, was elected a Vice President of the Company. Louis G. Melchior, Vice President and Treasurer of City Stores Company, was elected to the Board of Directors.

Our 1964 capital improvement program included the refixturing and beautification of the main floor of Lit Brothers in Philadelphia and of Maison Blanche in New Orleans. Similarly, the basements of Lansburgh's in Washington, D. C. and of Richard's in Miami were re-lighted and refixed. It is noteworthy that each of the above-mentioned modernization programs took place in downtown center-city stores.

The Franklin Simon division modernized many of its units with particular attention to its stores in Westport, Connecticut; Boston, Massachusetts; Washington, D. C.; Garden City, Long Island; Atlanta, Georgia and Towson, Maryland.

Your Company has expansion plans for several of its stores in 1965. Franklin Simon, in addition to modernizing and refixturing its store in downtown Detroit, is planning new stores in Westland Shopping Center, Detroit and in Greenbriar Shopping Center in Atlanta, and will open an additional floor — the fourth — in its 34th Street New York store.

In addition to increasing the selling space of its Fifth Avenue store by nearly forty percent, W & J Sloane will add a floor to its White Plains, New York store and will open a new store in downtown Hartford, Connecticut.

Richard's in Miami will add a 60,000 square foot floor to its Cutler Ridge store and a 40,000 square foot floor to its 163rd Street store. In addition, a lease has been signed for a 120,000 square foot store in the Lauderhill Shopping Center, a regional, air-conditioned mall center in Fort Lauderdale. This store is planned to open in 1966.

Lansburgh's in Washington is adding a budget store to its Langley branch, accompanied by a modernizing and refixturing program in that store.

Lit's will begin construction of its new branch store in the Plymouth Meeting Shopping Center northwest of Philadelphia. This store will be the largest of our Philadelphia branches and is also planned for opening in 1966.

Loveman's store in Huntsville, Alabama, is under construction and will open early in 1966.

Similar programs for other divisions are in the discussion stage and will be announced from time to time during the year.

Your Company continues to expand in the field of electronics. The installation of the Richard's accounts receivable on the Maison Blanche computer has been completed. The Lit computer will be operational shortly and customers' accounts will be placed upon it by the end of summer. It is planned that the Franklin Simon accounts will be placed on the Lit computer during 1966. Substantial efficiencies are being effected at Maison Blanche and Richard's with even greater benefits anticipated at Lit's and Franklin Simon. In addition, the use of the computer for merchandise control and reorder programs, now in effect at Maison Blanche, promises important benefits to the entire Company over the years.

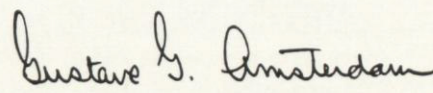
Efforts to improve our merchandising have

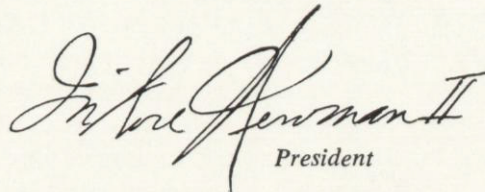
taken many forms. Realizing that more than half of the population is under 25 years of age, a youth program has been inaugurated by each of our divisions. Early response has exceeded our expectations and this constant effort to make our stores attractive to the young will be pursued and augmented during the year. New departments are being created in our stores and new markets being explored to further our progress in the direction of youth appeal, fashion appeal and quality appeal. Thus, Franklin Simon has become the store of "The Young Individualist". W & J Sloane has opened the "Young Sloane Shop", an area for "those with more flair than funds". Our department stores have gone to great lengths to make themselves attractive to this ever-growing and profitable market.

Our emphasis is shifting to quality and service rather than to price alone and we are endeavoring through exciting events to make our stores more interesting places in which to shop. These events have ranged from elegant import fairs, which present to our public the top fashion designers of the world, to contests for juke box devotees learning the newest dance crazes.

In conclusion, we recognize that the past year for business and, particularly for retailing, has been an excellent one. Your Company's results are significantly better and we have reason to expect a continuation of an improved sales and profit performance as the new team gains in experience and confidence. The Directors and Officers especially wish to recognize the loyal and devoted services of the Company's employees. To them, our customers, our suppliers and our shareholders, we express our appreciation for their continued support.

Respectfully submitted,


Chairman of the Board


President

April 28, 1965

Statement of Income

	YEAR (52 WEEKS) ENDED	
	January 30, 1965	February 1, 1964
Sales (including leased departments)	\$325,045,407	\$313,596,114
Deduct:		
Cost of goods sold and operating expenses less carrying charges	314,620,847	307,740,991
Depreciation and amortization	4,444,609	4,540,597
Interest and debt expense	3,050,316	3,628,598
	<u>322,115,772</u>	<u>315,910,186</u>
	2,929,635	2,314,072
Income before federal income taxes of unconsolidated subsidiaries (depreciation of \$593,914 and \$563,025, respectively, deducted) — Note A	551,831	461,568
Other income (net)	135,516	207,162
Minority interest	124,157	48,863
	<u>3,492,825</u>	<u>1,694,205</u>
Income or loss before federal income taxes	3,492,825	1,694,205
Federal income taxes or credit — deferred — Note E	1,400,000	1,020,000
Net income or loss	<u>\$ 2,092,825</u>	<u>\$ 674,205</u>

Italics denote red figures.

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves.

See notes to financial statements, pages 9 through 11.

Statement of

ASSETS

	January 30, 1965	February 1, 1964
CURRENT ASSETS		
Cash	\$ 9,826,540	\$ 10,444,964
Accounts receivable — Note B	35,108,638	34,135,422
Merchandise inventories — Note C	40,752,458	39,116,183
Supplies and prepaid expenses	2,968,806	3,217,660
TOTAL CURRENT ASSETS	88,656,442	86,914,229

INVESTMENTS AND OTHER ASSETS

Investments in and net receivables from unconsolidated subsidiaries — Note A and page 8	3,584,462	3,978,622
U. S. Government securities deposited as security under leases	223,588	239,902
Mortgages receivable, sundry investments and other items	1,041,195	1,150,167
	<u>4,849,245</u>	<u>5,368,691</u>

PROPERTY AND EQUIPMENT — Note D

Land, buildings, leaseholds, fixtures and equipment — at cost	69,795,450	70,026,012
Less accumulated depreciation and amortization	33,965,755	31,706,635
	<u>35,829,695</u>	<u>38,319,377</u>
UNAMORTIZED DEBT EXPENSE	83,514	100,468
	<u>\$129,418,896</u>	<u>\$130,702,765</u>

See notes to financial statements, pages 9 through 11.

Financial Condition

LIABILITIES	<u>January 30, 1965</u>	<u>February 1, 1964</u>
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 25,501,448	\$ 25,050,096
Federal income taxes — Note E	502,620	270,178
Current portion of long term debt and mortgages not assumed	4,801,711	5,187,689
TOTAL CURRENT LIABILITIES	<u>30,805,779</u>	<u>30,507,963</u>
 LONG TERM DEBT (other than mortgages not assumed) — Note F	 <u>20,928,194</u>	 <u>25,086,194</u>
 RESERVES — Note G	 <u>3,506,932</u>	 <u>2,019,377</u>
 DEFERRED FEDERAL INCOME TAXES — Note E	 <u>6,246,023</u>	 <u>6,711,581</u>
 MORTGAGES NOT ASSUMED — Note D	 <u>6,759,480</u>	 <u>7,440,191</u>
 DEFERRED CREDIT	 <u>589,139</u>	 <u>745,212</u>
 MINORITY INTEREST	 <u>881,461</u>	 <u>716,128</u>
 OWNERSHIP — Note H		
Common stock — \$5 par value — authorized 6,000,000 shares; outstanding 2,957,863 shares (after deducting 12,423 shares in treasury)	14,789,316	14,789,316
Other capital	20,217,674	20,217,674
Income reinvested in business — Note F	24,694,898	22,469,129
	<u>59,701,888</u>	<u>57,476,119</u>
	<u>\$129,418,896</u>	<u>\$130,702,765</u>

Statement of Income Reinvested in Business

	YEAR (52 WEEKS) ENDED	
	January 30, 1965	February 1, 1964
Balance at beginning of year	\$22,469,129	\$23,143,334
Net income or loss	2,092,825	674,205
	<u>24,561,954</u>	<u>22,469,129</u>
<i>Charges and credits (net of applicable federal income taxes):</i>		
Recovery of prior year's federal income taxes less additional assessment and interest thereon	1,416,773	—
Gain on termination of subsidiary's pension plan less minority interest	216,171	—
Anticipated loss on real estate dispositions	<u>1,500,000</u>	—
Balance at end of year — Note F	<u>\$24,694,898</u>	<u>\$22,469,129</u>

**Unconsolidated Real Estate Subsidiaries—Combined
Summary of Net Assets—Note A**

	January 30, 1965	February 1, 1964
Land, buildings, leaseholds and equipment, less depreciation (includes unoccupied premises of closed stores)	\$13,573,848	\$14,812,654
Mortgages payable — current portions \$570,760 (this year) and \$605,439 (last year)	9,715,288	10,796,293
	<u>3,858,560</u>	<u>4,016,361</u>
Other assets, including cash of \$71,962 (this year) and \$67,075 (last year)	236,387	307,029
	<u>4,094,947</u>	<u>4,323,390</u>
Accounts payable and deferred federal income taxes	510,485	344,768
Net assets	<u>\$ 3,584,462</u>	<u>\$ 3,978,622</u>
Consisting of:		
Intercompany accounts with parent companies — net	\$ 1,001,410	\$ 1,386,476
Ownership	<u>2,583,052</u>	<u>2,592,146</u>
	<u>\$ 3,584,462</u>	<u>\$ 3,978,622</u>

Leases:

The minimum annual rentals upon real property leased by unconsolidated subsidiaries under leases expiring more than 3 years from January 30, 1965 amounted to approximately \$275,000, of which approximately \$150,000 pertains to properties leased to City Stores Company. Certain of the leases with an aggregate minimum annual rental of approximately \$200,000 have been guaranteed by City Stores Company. Certain of the leases provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount and for taxes, insurance or other charges.

See notes to financial statements, pages 9 through 11.

Notes to Financial Statements

The financial statements for the preceding year are included for comparison purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes relating to those financial statements.

A — PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. If the unconsolidated subsidiaries were consolidated, the principal effect would be to increase net property and equipment by \$13,573,848 and long term debt by \$9,144,528 and to eliminate investments in and net receivables from unconsolidated subsidiaries of \$3,584,462. A summary of the net assets of these real estate subsidiaries is set forth on page 8.

B — ACCOUNTS RECEIVABLE

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts receivable customers and others — after deducting \$9,236,653 (this year) and \$10,381,090 (last year) received on account of the sale of a portion of installment receivables	\$67,337,998	\$65,874,610
Less:		
Accounts receivable assigned net of equity of \$3,269,623 (this year) and \$3,203,572 (last year)	29,426,609	28,832,150
Allowances for doubtful accounts	2,802,751	2,907,038
	32,229,360	31,739,188
	<u>\$35,108,638</u>	<u>\$34,135,422</u>

C — MERCHANDISE INVENTORIES — Determined principally under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$5,100,000 more for this year and \$5,040,000 more for last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	\$29,009,050	\$28,271,886
Less allowance for discounts	761,987	763,428
	28,247,063	27,508,458
At lower of cost or market	12,505,395	11,607,725
	<u>\$40,752,458</u>	<u>\$39,116,183</u>

D — PROPERTY AND EQUIPMENT

The accounts include real estate in the net amount of \$8,268,629, principally store properties, subject to mortgages which at January 30, 1965 amounted to \$7,440,191. The Company is not liable on the mortgage notes. Three liquidated real estate subsidiaries remain liable on the mortgages.

E — FEDERAL INCOME TAXES

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes generally on the basis of cash collections. The deferred income taxes include amounts applicable to installment sales and accelerated depreciation.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

F — LONG TERM DEBT (other than mortgages not assumed)

Long term debt is summarized as follows:

	This Year	Last Year
Notes payable to bank and insurance company	\$17,710,000	\$21,568,000
4% sinking fund debentures (subordinated)	1,500,000	1,800,000
Notes payable to parent company	1,718,194	1,718,194
	<u>\$20,928,194</u>	<u>\$25,086,194</u>

Annual maturities after one year of notes payable under loan agreements with The Prudential Insurance Company of America and The First National Bank of Boston aggregate \$3,858,000 for 1966, \$1,983,000 from 1967 to 1970, \$5,583,000 in 1971, and approximately \$83,000 from 1972 to 1975. The 4% sinking fund debentures (subordinated) are payable \$300,000 annually. Notes payable to parent company are due on February 26, 1966. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of the Company's stock, and (3) restrictions on the payment of cash dividends on the Company's common stock. Under the restrictions of the loan agreements, the Company is not presently permitted to pay cash dividends.

G — RESERVES

These have been provided for the following:

	This Year	Last Year
Restoration of leased properties	\$ 441,899	\$ 441,899
Termination of store operations	350,789	435,516
Excess rentals	219,439	279,758
Deferred compensation	994,805	862,204
Real estate dispositions	1,500,000	—
	<u>\$3,506,932</u>	<u>\$ 2,019,377</u>

Reserve for termination of store operations represents the estimated expense to be incurred at vacated stores, less amounts included in current liabilities. Reserve for real estate dispositions is net of expected federal income tax reduction.

H — STOCK OPTIONS

The Company's Stock Option Plan, as amended in 1964, makes available for granting to selected key executives stock options to purchase 125,000 shares of the Company's common stock. The Plan authorizes the granting of options at 95% of the market price at date of grant through 1963 and at 100% thereafter. Options granted in 1964 and thereafter are exercisable over a period not exceeding five years and options granted prior to 1964 are generally exercisable over a period not exceeding ten years, commencing 12 and 18 months, respectively, from grant dates. During the year, options to purchase 32,700 shares were granted, and options for 22,500 shares were cancelled. At January 30, 1965, options were outstanding for the purchase of 74,700 shares at prices ranging from \$8.43 to \$12.79 per share. On April 7, 1965, options for 18,650 shares were granted at \$11.38 per share. No options have been exercised.

I — CONTINGENCIES AND OTHER COMMENTS

The minimum annual rentals on real property leased by the Company and its consolidated subsidiaries under leases expiring more than three years from January 30, 1965, amount to approximately \$1,500,000 under leases with the unconsolidated real estate subsidiaries and \$6,600,000 under leases with others, including \$400,000 with its parent, Bankers Securities Corporation. Certain of the leases provide for payment of additional rental based on a percentage of sales over a fixed amount and for taxes, insurance or other charges. See page 8 for minimum rentals payable by unconsolidated real estate subsidiaries.

Certain leases provide for the restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, no provision has been made in the accounts for such costs, except as to \$441,899 (included in the tabulation of reserves in Note G) recorded on the acquisition of a subsidiary in a prior year.

The cost of goods sold, buying and occupancy expenses were \$246,961,742 and selling, general and administrative expenses and provision for doubtful accounts were \$67,659,105.

J — PENSION PLAN

The Company's non-contributory pension plan (as amended) covers, generally, employees with 20 years of service who are not participants in any other plan to which the Company contributes. The plan provides for retirement at age 65 with no vesting of rights. Although the Company does not presently contemplate funding this plan, it may do so in the future. The Company may amend, modify or terminate the plan in whole or in part at any time. The benefits paid under this plan, which are charged to operations as paid, approximated \$262,000 and will increase to an annual amount of approximately \$675,000 in 1974. Payments under informal arrangements to presently retired employees were \$370,000 this year and will gradually decline, based on mortality factors. The amount which would have been necessary to fund this plan at January 30, 1965, with respect to past services as related to employees 55 years of age and over and retired employees, has been estimated by the Company's consulting actuary at approximately \$3,500,000 after taxes. The past service cost for other eligible employees has not been computed.

Accountants' Report

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 30, 1965, the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended and the combined summary of net assets of unconsolidated real estate subsidiaries as at January 30, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 30, 1965, the consolidated results of their operations for the year (52 weeks) then ended and the combined net assets of the unconsolidated real estate subsidiaries at January 30, 1965, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

New York, N. Y.
April 14, 1965

S. D. LEIDESDORF & CO.

Historical Comparison

	January 30, 1965	February 1, 1964	February 2, 1963	February 3, 1962	January 28, 1961
Operations*					
Sales	\$325,045,000	\$313,596,000	\$309,153,000	\$286,886,000	\$262,504,000
Index of sales	124%	119%	118%	109%	100%
Income or loss before federal income taxes	3,493,000	1,694,000	3,275,000	1,518,000	349,000
Federal income taxes or credit — deferred	1,400,000	1,020,000	1,680,000	—	1,520,000
Net income or loss	2,093,000	674,000	1,595,000	1,518,000	1,869,000
Income per average common share	0.71	—	—	0.54	0.69
Dividends					
Common stock	—	—	1,304,000	1,683,000	2,424,000
Per share Common stock	—	—	0.45	0.60	0.90
Financial					
Current assets	88,656,000	86,914,000	92,667,000	98,843,000	85,898,000
Current liabilities	30,805,000	30,508,000	36,753,000	35,321,000	26,618,000
Working capital	57,851,000	56,406,000	55,914,000	63,522,000	59,280,000
Current ratio	2.9	2.8	2.5	2.8	3.2
Accounts receivable	64,535,000	62,968,000	76,385,000	66,245,000	56,185,000
Bank remittances on portion of receivables	29,427,000	28,832,000	38,097,000	17,060,000	14,837,000
Inventories	40,752,000	39,116,000	39,775,000	32,944,000	26,610,000
Property and equipment — net	35,830,000	38,319,000	41,614,000	42,512,000	38,456,000
Long term debt	20,928,000	25,086,000	29,569,000	32,840,000	27,443,000
Ownership					
Common stock equity	59,702,000	57,476,000	58,150,000	59,869,000	63,168,000
Common stock equity per share	20.18	19.43	19.66	20.86	22.83
Number of common shares outstanding					
Average during year	2,957,863	2,957,863	2,897,000	2,804,000	2,694,000
At end of year	2,957,863	2,957,863	2,957,863	2,869,453	2,767,012

Italics denote red figures.

* Exclusive of extraordinary items which did not result from the usual or typical business operations and have been credited or charged to income reinvested in business or to reserves.



City Stores Thinks Young!

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